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HSBC Poland Manufacturing PMI®

Polish manufacturing output falls at fastest rate in over three years

Key findings:

- Output Index declines to 38-month low
- New orders fall for seventh month running
- · Employment growth sustained, but at marginal pace

HSBC survey data compiled by Markit indicated an ongoing downturn in the Polish manufacturing sector in August. Moreover, the contraction deepened, as both output and new orders declined at sharper rates. Employment growth was maintained but slowed to a crawl, while firms cut purchasing and stocks further. Inflationary pressures remained weak, partly linked to the stronger zloty.

The headline HSBC Poland Manufacturing *PMI*® is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the sector.

The PMI lost most of the ground regained in July, sinking to 48.3 in August. That was the second-lowest figure in 35 months, and signalled a fifth successive overall monthly deterioration in the business climate.

Survey data indicated another fall in new business received by Polish manufacturers. New orders have declined every month since February, and the rate of contraction accelerated in August. New export orders continued to decline at a faster rate than total new business, partly reflecting the stronger zloty.

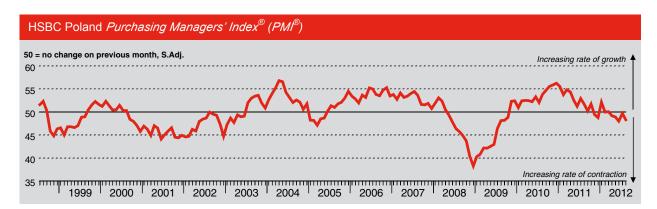
Goods production in Poland fell for the fourth month running in August, and at the fastest pace in over three years. The rate of reduction remained less substantial than that for new orders, however, as firms continued to support production through the completion of existing workloads. Backlogs declined for the fifteenth month running, and at the second-fastest rate over this sequence.

The volume of inputs purchased by Polish manufacturers fell for the seventh month in succession in August. The rate of decline accelerated from July, but was not quite as sharp as June's three-year record. Firms linked lower purchasing to reduced output requirements and, correspondingly, stocks of inputs contracted for the fifth consecutive month. Inventories of final goods also fell, extending the current sequence of decline to 12 months.

The main bright point from the latest survey findings was a sustained expansion of the manufacturing sector workforce. August marked a fifth consecutive month of job creation, although the rate of growth slowed back to a marginal pace.

Average input prices fell for the second month running in August. Prior to July, input prices had risen every month since August 2009. That said, the respective index rose for the first time in seven months, to signal a slower rate of reduction in input prices.

Output prices charged by Polish manufacturers also fell for the second month in succession in August. Firms linked lower tariffs to competitive pressures and the strengthening zloty. The rate of reduction was unchanged from July's marginal pace, however.



The HSBC Poland *Purchasing Managers' Index*® (*PMl*P) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index*® and *PMl*P are registered trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

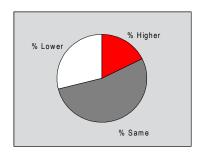




Output Index

Q. Please compare your production/output this month with the situation one month ago.

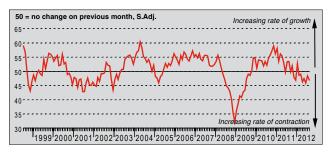




August survey data signalled a fourth successive monthly contraction in Polish manufacturing production. Moreover, the seasonally adjusted Output Index fell over the month, and signalled the fastest rate of decline since June 2009. The latest anecdotal evidence highlighted a lack of incoming new work as the main factor weighing on output during the month.

New Orders Index

Q. Please compare the level of new orders received this month with the situation one month ago.



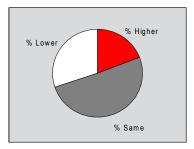


The seasonally adjusted New Orders Index remained below 50.0 in August, signalling a further drop in new workloads at Polish goods producers. The current sequence of contraction now stretches to seven months. The rate of decline accelerated since July, but was not as strong as June's three-year record. Firms linked lower new orders to a wider economic downturn, and weak demand related to the construction industry in particular.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.



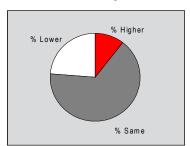


New export business in the Polish goods-producing sector fell for the fifth successive month in August. The rate of contraction was unchanged from July's three-month low, but still stronger than the average over the past 12 months. Firms generally reported disappointing international demand for their products.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

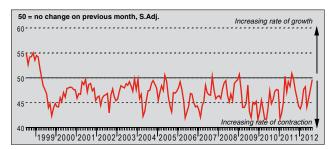


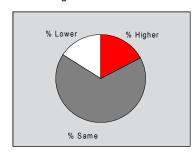


The completion of existing contracts continued to support Polish manufacturing production in August. Remaining below 50.0 for the fifteenth successive month, the seasonally adjusted Backlogs of Work Index continued to signal spare capacity in the sector. Moreover, the latest figure indicated the second-fastest rate of decline over the current sequence of depletion.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



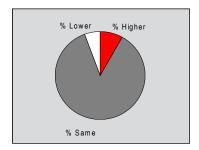


Manufacturers continued to trim their stocks of finished products in the latest survey period. August marked the twelfth month in succession where final goods inventories had declined on average. That said, the rate of contraction signalled was only marginal, and the weakest since September 2011.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.



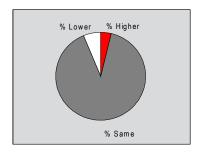


Manufacturing employment in Poland rose for the fifth month running in August. With the exception of July, however, the rate of job creation over that sequence has been marginal. Only around 8% of firms raised recruitment during the latest period, mainly citing expected intakes of new business over the coming months.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



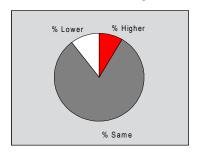


Downward pressure on manufacturers' output prices was maintained in August. Average prices charged for final goods fell marginally for the second month running, following a 27-month sequence of inflation. Firms attributed discounting to competitive pressures and the impact of the stronger zloty against the euro (which increased pressure to reduce the zloty price of exports in order to remain competitive in Eurozone economies).

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



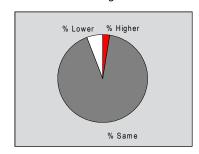


Input prices fell slightly for the second month running in August, as signalled by the seasonally adjusted Input Prices Index remaining below the neutral threshold of 50.0. Prior to July, input prices had risen for 35 successive months. Firms linked lower cost pressures to reduced raw material prices – notably steel – and also the impact of the weaker euro exchange rate which lowered import prices. The overall rate of reduction was only marginal, however, and weaker than in July.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

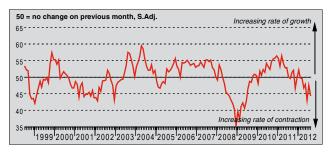


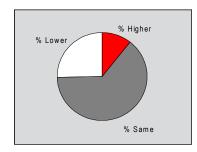


The performance of companies supplying inputs to Polish goods producers was little changed from one month previously in August. The seasonally adjusted Suppliers' Delivery Times Index broadly matched the neutral 50.0 threshold, having signalled slight delays the previous month. Manufacturers reported adjusting stocks to current requirements and little pressure on supplier workloads.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

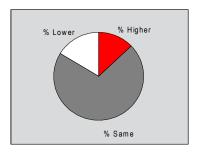




The volume of inputs purchased by Polish manufacturers declined sharply in August. The current sequence of contraction now stretches to seven months, and the rate of decline was the second-fastest over this period. The latest anecdotal evidence attributed reduced purchasing activity to lower production requirements and falling new business.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Polish goods producers held less inputs in stock than one month previously, on average, in August. Stocks of purchases in the sector have fallen for the past five months. Moreover, the seasonally adjusted Stocks of Purchases Index was just below its long-run trend level of 46.5 during the latest period. Firms linked stock depletion to reduced workloads.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 200 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Polish GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index® (PMI®) is a composite index based on five of the individual indexes with the following weights derived from Markit's survey of the UK manufacturing economy: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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